

Duchesne City
Duchesne County, Utah

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2006

Duchesne City
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June 30, 2006

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AYCOCK, MILES & ASSOCIATES, CPAs, P.C.

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Independent Auditors' Report

Duchesne City
Duchesne, Utah

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information, of Duchesne City as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Duchesne City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information, of Duchesne City as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2006 on our consideration of the Duchesne City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and the schedule of infrastructure, see Table of Contents for pages, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Aycock, Miles & Associates, CPAs

December 12, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Duchesne City
Management's Discussion and Analysis
June 30, 2006

As management of Duchesne City (the City), we offer readers of the City's financial statements this narrative overview and analysis of financial activities of the City for the fiscal year ended June 30, 2006.

FINANCIAL HIGHLIGHTS

- *Total net assets for the City as a whole increased by \$382,814.
- *Total unrestricted net assets for the City as a whole increased by \$40,042.
- *Total net assets for governmental activities increased by \$433,707.
- *Total net assets for business-type activities decreased by \$16,510.

BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements of Duchesne City. The basic financial statements comprise three components: (1) government wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The statement of activities is presented on two pages. The first page reports the extent to which each function or program is self-supporting through fees and intergovernmental aid. The second page identifies the general revenues of the City available to cover any remaining costs of the functions or programs.

Duchesne City
Management's Discussion and Analysis
June 30, 2006

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Duchesne City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the government fund balance sheet and the government fund statement of the revenues, expenditures, and changes in fund balances provide reconciliation to facilitate this comparison between governmental funds and governmental activities.

Duchesne City maintains two major governmental funds, the general fund and capital projects fund.

The City adopts an annual appropriated budget for its general and capital project funds. A budgetary comparison schedule has been provided to demonstrate legal compliance with the adopted budget for the general fund.

The basic governmental fund financial statements can be found later in this report; see Table of Contents.

Proprietary funds. Duchesne City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses one enterprise fund to account for the water and sewer systems.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise fund is considered a major fund of the City.

The proprietary fund financial statements can be found later in this report; see Table of Contents.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are reported later in this report; see Table of Contents.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City.

Duchesne City
Management's Discussion and Analysis
June 30, 2006

FINANCIAL ANALYSIS

Duchesne City's Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Current Year</u>	<u>Total Previous Year</u>
	<u>Current Year</u>	<u>Previous Year</u>	<u>Current Year</u>	<u>Previous Year</u>		
Current and other assets	\$ 301,041	239,349	450,188	440,316	751,230	679,665
Capital assets	<u>2,188,617</u>	<u>1,905,790</u>	<u>2,496,819</u>	<u>2,423,279</u>	<u>4,685,436</u>	<u>4,329,069</u>
Total assets	<u>2,489,659</u>	<u>2,145,138</u>	<u>2,947,007</u>	<u>2,863,595</u>	<u>5,436,666</u>	<u>5,008,734</u>
Current liabilities	123,943	178,747	92,718	74,102	216,661	252,849
Long-term liabilities	<u>473,618</u>	<u>508,000</u>	<u>562,428</u>	<u>481,122</u>	<u>1,036,046</u>	<u>989,122</u>
Total liabilities	<u>597,561</u>	<u>686,747</u>	<u>655,146</u>	<u>555,224</u>	<u>1,252,707</u>	<u>1,241,971</u>
Net assets:						
Invested in net assets, net of debt	1,714,999	1,373,790	1,934,391	1,904,973	3,615,008	3,278,762
Restricted	-	-	43,933	37,406	43,933	37,406
Unrestricted	<u>177,099</u>	<u>84,602</u>	<u>313,537</u>	<u>365,992</u>	<u>490,636</u>	<u>450,594</u>
Total net assets	<u>\$1,892,098</u>	<u>1,458,392</u>	<u>2,291,860</u>	<u>2,308,371</u>	<u>4,149,577</u>	<u>3,766,763</u>

As noted earlier, net assets may serve over time as a useful indicator of financial position. Total assets exceeded total liabilities at the close of the year by \$4,149,577, an increase of \$382,814 from the previous year. This change is equivalent to the net income for the year, in private sector terms.

Total unrestricted net assets at the end of the year are \$490,636, which represents an increase of \$40,042 from the previous year. Unrestricted net assets are those available to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

The amount of current and other assets represent the amounts of cash and receivables on hand at the end of each year. Other liabilities are the amounts of current and other assets due, at year end, for goods and services acquired.

Changes in capital assets are the result of the difference, in the current year, of the cost of acquisition of capital assets and any depreciation charges on capital assets. Change in long-term debt is the difference in the amount of debt issued and that which has been paid during the year.

Duchesne City
Management's Discussion and Analysis
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FINANCIAL ANALYSIS (continued)

Duchesne City's Changes in Net Assets:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	<u>Total</u>
	<u>Current Year</u>	<u>Previous Year</u>	<u>Current Year</u>	<u>Previous Year</u>	<u>Current Year</u>	<u>Previous Year</u>
Program revenues:						
Charges for services	\$117,797	68,847	554,832	504,069	672,629	572,916
Operating grants	84,964	95,672	-	-	84,964	95,672
Capital grants	392,473	122,141	18,070	75,056	410,543	197,197
General revenues:						
Property taxes	84,730	94,332	-	-	84,730	94,332
Sales tax	240,748	206,296	-	-	240,748	206,296
Other taxes	99,982	81,933	-	-	99,982	81,933
Other revenues	<u>15,278</u>	<u>(23,333)</u>	<u>1,921</u>	<u>1,539</u>	<u>17,199</u>	<u>(21,794)</u>
Total revenues	<u>1,035,973</u>	<u>645,887</u>	<u>574,823</u>	<u>580,664</u>	<u>1,610,796</u>	<u>1,226,552</u>
Expenses:						
General government	99,755	128,406	-	-	99,755	128,406
Public safety	177,385	179,200	-	-	177,385	179,200
Highways and improvements	200,655	249,633	-	-	200,655	249,633
Parks, recreation and cemetery	152,083	171,155	-	-	152,083	171,155
Interest on long-term debt	6,770	7,219	-	-	6,770	7,219
Water	-	-	358,705	255,729	358,705	255,729
Sewer	-	-	122,832	111,903	122,832	111,903
Solid waste	-	-	<u>75,414</u>	<u>74,635</u>	<u>75,414</u>	<u>74,635</u>
Total expenses	<u>636,649</u>	<u>735,613</u>	<u>556,952</u>	<u>442,266</u>	<u>1,193,600</u>	<u>1,177,880</u>
Transfers	<u>34,382</u>	<u>190,000</u>	<u>(34,382)</u>	<u>(190,000)</u>	-	-
Change in net assets	<u>\$433,707</u>	<u>100,274</u>	<u>(16,510)</u>	<u>(51,602)</u>	<u>417,197</u>	<u>48,672</u>

Total revenues increased by \$384,244, while total expenses increased by \$15,721. The total net increase for the year of \$417,197 is an increase from the previous year of \$368,555.

Governmental activities revenues of \$1,035,973 is an increase of \$390,086 from the previous year. This is primarily a result of grant revenues received for the airport project and 400 South Bridge project during the current year. Governmental activities expenses of \$636,649 is a decrease of \$98,965 from the previous year. This is primarily a result of a decrease in park and highway expenditures from the prior year.

Business-type activities revenue of \$574,823 is a decrease of \$5,841 from the previous year. Business-type activities expenses of \$556,952 is an increase of \$114,685 from the previous year. This is primarily a result of increase in payroll expenses, as well as contractual services.

Duchesne City
Management's Discussion and Analysis
June 30, 2006

BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS

Some of the more significant changes in fund balances and fund net assets and any restrictions on those amounts are described below:

General Fund

The fund balance of \$187,417 reflects an increase of \$100,069 from the previous year. Total revenues increased by \$118,627. Tax revenues, including property taxes and sales taxes increased by \$42,793. Intergovernmental revenue increased by \$27,268. All other revenues increased by \$48,566.

Total expenditures decreased by \$73,352. Expenditure changes, by department, excluding capital outlay: administrative decreased by \$28,685, public safety (fire, police, building inspection and animal control) decreased by \$2,767, streets and highways decreased by \$46,884 and parks and recreation decreased by \$24,408. Total expenditures for capital outlay for all departments increased by \$4,121.

Capital Projects Fund

The negative fund balance of \$13,505 reflects on decrease of \$7,642. Total revenues of \$354,498 increased by \$230,250, while total expenditures of \$362,140 decreased by \$21,769.

Utility Fund

Amount restricted for debt service is \$43,933. Unrestricted net assets amount to \$313,537.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no changes in the budget during the current year.

Duchesne City
Management's Discussion and Analysis
June 30, 2006

CAPITAL ASSET AND DEBT ADMINISTRATION

Duchesne City's Capital Assets (net of depreciation):

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	<u>Total</u>
	<u>Current Year</u>	<u>Previous Year</u>	<u>Current Year</u>	<u>Previous Year</u>	<u>Current Year</u>	<u>Prior Year</u>
Net Capital Assets:						
Land and water rights	\$ 39,040	39,040	17,705	17,705	56,745	56,745
Buildings	227,025	194,716	183,457	191,778	410,482	386,493
Improvements other than buildings	500,546	515,292	-	-	500,546	515,292
Equipment	57,957	45,909	225,246	185,239	283,203	231,149
Water and sewer systems	-	-	2,004,740	2,077,024	2,004,740	2,077,024
Infrastructure	593,815	659,796	-	-	593,815	659,796
Work in progress	<u>658,776</u>	<u>451,037</u>	<u>65,671</u>	<u>-</u>	<u>724,447</u>	<u>451,037</u>
Totals	<u>\$2,077,159</u>	<u>1,905,790</u>	<u>2,496,819</u>	<u>2,471,746</u>	<u>4,573,977</u>	<u>4,377,535</u>

The total amount of capital assets, net of depreciation, of \$4,573,977 is an increase of \$196,442 from the previous year.

Governmental activities capital assets, net of depreciation, of \$2,077,159 is an increase of \$171,369 from the previous year.

Business-type activities capital assets, net of depreciation, of \$2,496,819 is an increase of \$25,073 from the previous year.

Additional information regarding capital assets may be found in the notes to financial statements.

Duchesne City
Management's Discussion and Analysis
June 30, 2006

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Duchesne City's Outstanding Debt - Revenue Bonds

	<u>Current Year</u>	<u>Previous Year</u>
<u>Governmental activities:</u>		
Street Revenue	\$ 328,000	342,000
Swim Pool Revenue	<u>145,618</u>	<u>190,000</u>
Total governmental	<u>573,618</u>	<u>532,000</u>
 <u>Business-type activities:</u>		
Sewer revenue 1968	3,844	7,366
WPCC Sewer revenue	34,084	45,407
Div of Drinking Water 2002	490,000	514,000
Water shed	<u>34,500</u>	<u>-</u>
Total business-type	<u>562,428</u>	<u>566,773</u>
 Total outstanding debt	 <u>\$1,136,046</u>	 <u>1,098,773</u>

Additional information regarding the long-term liabilities may be found in the notes the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

No significant economic changes that would affect Duchesne City are expected for the next year. Budgets have been set on essentially the same factors as the current year being reported.

Also, no change in any rates is expected during the next year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Duchesne City finances for all those with an interest in the City's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the City's clerk at (435) 738-2464.

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BASIC FINANCIAL STATEMENTS

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Duchesne City
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 37,932	351,908	389,840
Accounts receivable:			
Property taxes	95,176	-	95,176
Intergovernmental	108,546	-	62,220
Customer accounts, net	832	54,347	55,179
Other receivables	9,820	-	56,146
Other current assets	<u>24,737</u>	<u>-</u>	<u>24,737</u>
Total current assets	<u>277,042</u>	<u>406,255</u>	<u>683,297</u>
Non-current assets:			
Restricted cash and cash equivalents	24,000	43,933	67,933
Capital assets:			
Not being depreciated	809,274	83,376	892,650
Net of accumulated depreciation	<u>1,379,343</u>	<u>2,413,443</u>	<u>3,792,786</u>
Total non-current assets	<u>2,212,617</u>	<u>2,540,752</u>	<u>4,753,369</u>
TOTAL ASSETS	<u>\$2,489,659</u>	<u>2,947,007</u>	<u>5,536,666</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 32,303	79,603	111,906
Accrued interest payable	1,640	6,398	8,038
Customer security deposits	-	6,717	6,717
Deferred revenues	90,000	-	90,000
Revenue bonds due within one year	<u>24,000</u>	<u>43,933</u>	<u>67,933</u>
Total current liabilities	<u>147,943</u>	<u>136,651</u>	<u>284,594</u>
Non-current liabilities:			
Revenue bond due after one year	<u>449,618</u>	<u>518,495</u>	<u>968,113</u>
Total non-current liabilities	<u>449,618</u>	<u>518,495</u>	<u>968,113</u>
TOTAL LIABILITIES	<u>597,561</u>	<u>655,146</u>	<u>1,252,707</u>
NET ASSETS			
Invested in capital assets, net of related debt:	1,714,999	1,934,391	3,649,390
Restricted:			
Debt service requirements	-	43,933	43,933
Class C roads	-	-	-
Unrestricted	<u>177,099</u>	<u>313,537</u>	<u>490,636</u>
TOTAL NET ASSETS	<u>1,892,098</u>	<u>2,291,860</u>	<u>4,183,959</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$2,489,659</u>	<u>2,947,006</u>	<u>5,436,666</u>

The notes to the financial statements are an integral part of this statement.

Duchesne City
Statement of Activities
For the Year Ended June 30, 2006

<u>Function/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
Primary government:					
Governmental activities:					
General government	\$ 99,755	33,156	-	-	(66,599)
Public safety:					
Police	104,031	-	2,357	-	(101,674)
Fire	38,164	25,243	3,267	-	(9,654)
Building inspection	14,446	-	-	-	(14,446)
Animal Control	20,745	7,364	-	8,791	(4,590)
Highways and public improvements:					
Streets and highways	193,888	-	79,340	119,845	5,296
Airport	6,767	4,346	-	263,838	261,417
Parks, rec, and public property:					
Parks	30,987	185	-	-	(30,802)
Recreation and culture	14,211	5,793	-	-	(8,418)
Bowling	36,314	20,180	-	-	(16,134)
Swimming pool	55,749	18,631	-	-	(37,118)
Cemetery	14,822	2,900	-	-	(11,922)
Interest on long-term debt	<u>6,770</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,770)</u>
Total governmental activities	<u>636,649</u>	<u>117,797</u>	<u>84,964</u>	<u>392,473</u>	<u>(41,414)</u>
Business-type activities:					
Water	358,705	376,796	-	5,470	23,561
Sewer	122,832	98,901	-	12,600	(11,331)
Solid waste	<u>75,414</u>	<u>79,135</u>	<u>-</u>	<u>-</u>	<u>3,720</u>
Total business-type activities	<u>556,952</u>	<u>554,832</u>	<u>-</u>	<u>18,070</u>	<u>15,950</u>
Total primary government	<u>\$1,193,600</u>	<u>672,629</u>	<u>84,964</u>	<u>410,543</u>	<u>(25,464)</u>

The notes to the financial statements are an integral part of this statement.

Duchesne City
Statement of Activities (continued)
For the Year Ended June 30, 2006

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
CHANGE IN NET ASSETS:			
Net (expense) revenue (from previous page):	\$ (41,414)	<u>15,950</u>	<u>(25,464)</u>
General revenues:			
Property taxes	84,070	-	84,070
In lieu of property tax	660	-	660
Sales taxes	240,748	-	240,748
Franchise tax	99,982	-	99,982
Unrestricted investment earnings	11,028	1,921	12,949
Loss on retirement	-	-	-
Miscellaneous	<u>4,250</u>	<u>-</u>	<u>4,250</u>
Total general revenues	<u>440,739</u>	<u>1,921</u>	<u>442,660</u>
Transfers	<u>34,382</u>	<u>(34,382)</u>	<u>-</u>
Total general revenues and transfers	<u>475,121</u>	<u>(32,461)</u>	<u>442,660</u>
Change in net assets	433,707	(16,510)	417,197
Net assets - beginning	<u>1,458,392</u>	<u>2,308,371</u>	<u>3,766,763</u>
Net assets - ending	<u>\$1,892,098</u>	<u>2,291,860</u>	<u>4,183,958</u>

The notes to the financial statements are an integral part of this statement.

Duchesne City
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2006

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS:			
Cash and cash equivalents	\$122,179	-	122,179
Accounts receivable:			
Property tax	95,176	-	95,176
Intergovernmental	62,220	46,326	108,546
Other	10,652	-	10,652
Other assets	320	24,417	24,737
Cash - restricted	<u>24,000</u>	<u>-</u>	<u>24,000</u>
TOTAL ASSETS	<u>\$314,547</u>	<u>70,743</u>	<u>385,290</u>
LIABILITIES:			
Cash deficit	-	84,248	84,248
Accounts payable	\$ 19,656	-	19,656
Accrued liabilities	12,647	-	12,647
Deferred revenue	<u>94,827</u>	<u>-</u>	<u>94,827</u>
TOTAL LIABILITIES	<u>127,130</u>	<u>84,248</u>	<u>211,378</u>
FUND BALANCES:			
Reserved for:			
Debt service	24,000	-	24,000
Unreserved, reported in:			
General Fund	163,417	-	163,417
Capital Projects	<u>-</u>	<u>(13,505)</u>	<u>(13,505)</u>
TOTAL FUND BALANCES	<u>187,417</u>	<u>(13,505)</u>	<u>173,912</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$314,547</u>	<u>70,743</u>	<u>385,290</u>

The notes to the financial statements are an integral part of this statement.

Duchesne City
**STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**
 For the Year Ended June 30, 2006

	General Fund	Capital Projects Fund	Total Governmental Funds
REVENUES:			
Taxes:			
Property	\$ 84,730	-	84,730
Sales	240,748	-	240,748
Franchise	99,982	-	99,982
Licenses and permits	40,519	-	40,519
Intergovernmental	122,940	354,498	477,437
Charges for services	77,278	-	77,278
Interest income	11,028	-	11,028
Miscellaneous revenue	4,250	-	4,250
Total revenues	<u>681,476</u>	<u>354,498</u>	<u>1,035,973</u>
EXPENDITURES:			
General government	99,100	-	99,100
Public safety	173,181	-	173,181
Highways and public works	128,908	-	128,908
Parks and recreation	127,299	-	127,299
Capital outlay	22,078	362,140	384,218
Debt service:			
Principal	58,382	-	58,382
Interest	6,840	-	6,840
Total expenditures	<u>615,788</u>	<u>362,140</u>	<u>977,928</u>
Excess (deficiency) of revenues over (under) expenditures	<u>65,688</u>	<u>(7,642)</u>	<u>58,046</u>
Other Financing Sources (Uses):			
Transfers	34,382	-	34,382
Total other financing sources (uses)	<u>34,382</u>	<u>-</u>	<u>34,382</u>
Net change in fund balances	100,070	(7,642)	92,428
Fund balances - beginning of year	<u>87,348</u>	<u>(5,863)</u>	<u>81,485</u>
Fund balances - end of year	<u>\$187,417</u>	<u>(13,505)</u>	<u>173,912</u>

The notes to the financial statements are an integral part of this statement.

Duchesne City
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**
June 30, 2006

Total Fund Balances for Governmental Funds	<u>\$173,912</u>
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Total net assets reported for governmental activities in the statement are different because:

Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds.

Capital assets, at cost	5,003,146
Less accumulated depreciation	<u>(2,814,529)</u>
Net capital assets	<u>2,188,617</u>

Long-term debt, for funds other than enterprise funds, are recorded in the government-wide statements but not in the fund statements.

General long-term debt	(473,618)
-------------------------------	------------------

Interest accrued but not yet paid on general long-term debt	(1,640)
--	----------------

Certain revenue is deferred in governmental funds but not in the statement of net assets because it qualifies for recognition under the economic resources measurement focus.

Delinquent property tax deferred	<u>4,827</u>
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Total Net Assets of Governmental Activities	<u>\$1,892,098</u>
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The notes to the financial statements are an integral part of this statement.

Duchesne City
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**
June 30, 2006

Net Change in Fund Balances - Total Governmental Funds **\$ 92,428**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with a material cost are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expenses.

Capital outlays	384,218
Depreciation expense	<u>(101,390)</u>
Net	<u>282,827</u>

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Long-term debt principal repayments	58,382
--	---------------

Accrued interest for long-term debt is not reported as an expenditure for the current period while it is recorded in the statement of activities.

Change in accrued interest	<u>70</u>
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Change in Net Assets of Governmental Activities	\$<u>433,707</u>
--	-------------------------

The notes to the financial statements are an integral part of this statement.

Duchesne City
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2006

	<u>Business-type Activities - Enterprise Funds</u>
	<u>Utility</u> <u>Fund</u>
ASSETS:	
Current Assets:	
Cash and cash equivalents	\$ 351,908
Receivables, net	54,347
Other current assets	-
Total current assets	<u>406,255</u>
Non-current assets:	
Restricted cash and cash equivalents	43,933
Capital assets:	
Not being depreciated	83,376
Net of accumulated depreciation	<u>2,413,443</u>
Total non-current assets	<u>2,540,752</u>
Total assets	<u>2,947,006</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	79,603
Accrued interest payable	6,398
Customer deposits	6,717
Revenue bonds - current	<u>43,933</u>
Total current liabilities	<u>136,651</u>
Non-current liabilities:	
Revenue bonds - long-term	<u>518,495</u>
Total noncurrent liabilities	<u>518,495</u>
Total liabilities	<u>655,146</u>
NET ASSETS:	
Invested in capital assets, net of related debt	1,934,391
Restricted	43,933
Unrestricted	<u>313,537</u>
Total net assets	<u>2,291,860</u>
Total liabilities and net assets	<u>\$2,947,006</u>

The notes to the financial statements are an integral part of this statement.

Duchesne City
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006

	<u>Business-type Activities - Enterprise Funds</u>
	<u>Utility</u> <u>Fund</u>
Operating income:	
Water services	\$ 352,948
Sewer services	98,901
Garbage services	79,135
Other operating income	<u>23,849</u>
Total operating income	<u>554,832</u>
Operating expenses:	
Personal services	189,363
Contractual services	134,623
Services and supplies	18,969
Repairs and maintenance	49,824
Insurance	37,188
Other service and expenses	12,875
Depreciation	<u>101,298</u>
Total operating expense	<u>544,140</u>
Net operating income (loss)	<u>10,693</u>
Non-operating income (expense):	
Interest revenue	1,921
Interest expense	(12,812)
Impact fees	<u>18,070</u>
Total non-operating income (expense)	<u>7,179</u>
Income (loss) before	
contributions and transfers	17,872
Transfers	<u>(34,382)</u>
Change in net assets	(16,510)
Net assets - beginning	<u>2,308,371</u>
Net assets - ending	<u>\$2,291,860</u>

The notes to the financial statements are an integral part of this statement.

Duchesne City
STATEMENT OF CASH FLOWS
For the year ending June 30, 2006

	<u>Business-type Activities - Enterprise Funds</u> Utility Fund
Cash flows from operating activities:	
Cash received from customers - service	\$ 547,522
Cash paid suppliers	(243,838)
Cash paid to employees	<u>(189,363)</u>
Net cash provided (used) in operating activities	<u>114,321</u>
Cash flows from noncapital financing activities:	
Transfers out	(34,382)
Change in customer deposits	<u>918</u>
Net cash provided (used) in noncapital financing activities	<u>(33,464)</u>
Cash flows from capital and related financing activities:	
Cash received from bond issues	34,500
Cash from impact fees	18,070
Cash payments for construction and acquisition of plant	(82,227)
Cash payments for long-term debt principal	(38,845)
Cash payments for long-term debt interest	<u>(11,714)</u>
Net cash provided (used) in capital and related financing activities	<u>(80,216)</u>
Cash flows from investing activities:	
Cash received from interest earned	<u>1,921</u>
Net cash provided (used) in investing activities	<u>1,921</u>
Net increase (decrease) in cash	2,562
Cash balance, beginning	<u>393,279</u>
Cash balance, ending	<u>\$395,841</u>
Cash reported on the balance sheet:	
Cash and cash equivalents	\$351,908
Non-current restricted cash	<u>43,933</u>
Total cash and cash equivalents	<u>\$395,841</u>

Continued on next page

The notes to the financial statements are an integral part of this statement.

Duchesne City
STATEMENT OF CASH FLOWS (continued)
For the year ended June 30, 2006

**Reconciliation of Operating Income
to Net Cash Provided from Operating Activity:**

	<u>Business-type Activities - Enterprise Funds</u> Utility Fund
Net operating income (expense)	\$ <u>10,693</u>
Adjustments to reconcile operating income or (loss) to net cash provided (used) in operating activities	
Depreciation and amortization	101,298
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(7,310)
(Increase) decrease in inventory	-
Increase (decrease) in accounts payable - operations	<u>9,640</u>
Net cash provided in operating activity	\$ <u>114,321</u>

The notes to the financial statements are an integral part of this statement.

Duchesne City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A. Reporting entity

Duchesne City, (the City) is a municipal corporation located in Duchesne County, Utah, and operates under a Mayor-Council form of government. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

The City has no component units and is not a component unit of another entity.

1-B. Government-wide and fund financial statements

Government-wide Financial Statements

The government-wide financial statements, consisting of the statement of net assets and the statement of changes in net assets report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Indirect expenses are not allocated. All expenses are included in the applicable function. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privilege provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, if any, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statement.

Duchesne City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

1-C. Measurement focus, basis of accounting and financial statement presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments or payments to the general fund by other funds for providing administrative and billing services for such funds.. Reimbursements are reported as reductions to expenses. Proprietary and any fiduciary fund financial statements are also reported using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when the grantor eligibility requirements are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Duchesne City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

**1-C. Measurement focus, basis of accounting, and financial statement presentation
(continued)**

Policy regarding use of restricted resources

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. Restricted assets and liabilities payable from restricted assets current in nature are reported with current assets and current liabilities. *Restricted assets, non-current* reports assets restricted for acquisition or construction of non-current assets, or are restricted for liquidation of long-term debt.

1-D. Fund types and major funds

Governmental funds

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects fund* is used to account for the activities regarding capital projects.

Proprietary funds

The City reports the following major proprietary funds:

The *utility fund* is used to account for the activities of the water and sewer systems.

1-E. Assets, Liabilities, and Net Assets or Equity

1-E-1. Deposit and Investments

Investments are reported at fair value. Deposits are reported at cost, which approximates fair value. Investments of the City are accounts at the Utah Public Treasurers Investments Fund. Additional information is contained in Note 2.

Duchesne City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

1-E. Assets, Liabilities, and Net Assets or Equity (continued)

1-E-2. *Cash and Cash Equivalents*

The city's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

1-E-3. *Receivables and Payables*

Accounts receivable other than property taxes and intergovernmental receivables are from customers primarily for utility services. All receivables are considered collectible. No allowance accounts are maintained. Property tax and intergovernmental receivables considered collectible. Customer accounts reported net of an allowance for uncollectible accounts. The allowance amount is estimated using accounts receivable past due more than 90 days.

During the course of operations, there may be transactions occur between funds that are representative of lending/borrowing arrangements outstanding at year-end. These are reported as either *due to* or *due from other funds*.

Property taxes are assessed and collected for the City by Duchesne County and remitted to the City shortly after collection. Property taxes become a lien on January 1 and are levied on the first Monday in August. Taxes are due and payable on November 1, and are delinquent after November 30. All dates are in the year of levy.

1-E-4. *Restricted Assets*

In accordance with certain revenue bond covenants, resources may be required to be set aside for the repayment of such bonds, and, on occasion, for the repair and maintenance of the assets acquired with the bond proceeds. These resources are classified as restricted assets on the balance sheet because of their limited use. Most capital grant agreements mandate that grant proceeds be spent only on capital assets. Unspent resources of this nature are also classified as restricted. The limited use resources described above involve a reported restriction of both cash and net assets.

Unspent proceeds of bonds issued to finance capital assets are also reported as restricted cash.

1-E-5. *Inventories and Prepaid items*

Inventories in governmental funds are not reported. These consist of immaterial amounts of expendable supplies for consumption. Such supplies are acquired as needed. Proprietary fund inventories, where material, are stated at the lower of cost or market, using the first-in, first-out basis.

Prepaid items record payments to vendors that benefit future reporting and are reported on the consumption basis. Both inventories and prepayments are similarly reported in government-wide and fund financial statements.

Duchesne City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

1-E. Assets, Liabilities, and Net Assets or Equity (continued)

1-E-6. Capital Assets

Capital assets includes property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual significant cost and an estimated useful life in excess of two years. Such assets are recorded at historical cost or at estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Infrastructure is depreciated.

The cost of normal maintenance and repairs that does not add to the value of an asset or materially extend the assets' life is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Upon retirement or disposition of capital assets, the cost and related accumulated depreciation are removed from the respective accounts. Depreciation of capital assets is computed using the straight-line method over their estimated useful lives.

Property, plant, and equipment of the primary government, as well as the component units if any, is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	35
Infrastructure	30
Machinery and equipment	5-20
Vehicles	5-10

1-E-7. Long-term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are deferred and amortized over the terms of the respective bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Significant or material bond issuance costs are reported as deferred charges.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Duchesne City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

1-E. Assets, Liabilities, and Net Assets or Equity (continued)

1-E-8. Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation of legally restricted for specified purposes. The General Fund reserve for restricted purposes includes fund balance/net assets resulting from Class C road allotments restricted for eligible road maintenance. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2-A. Budgetary data

Annual budgets are prepared and adopted by ordinance by total for each department, in accordance with State law, by the Mayor and City Council on or before June 22 for the following fiscal year beginning July 1. Estimated revenues and appropriations may be increased or decreased by resolution of the city Council at any time during the year. A public hearing must be held prior to any proposed increase in a fund's appropriations. Budgets include activities in the General Fund. The level of the City's budgetary control (the level at which the City's expenditures cannot legally exceed appropriations) is established at the department level. Each department head is responsible for operating within the budget for their department. All annual budgets lapse at fiscal year end.

Utah State law prohibits the appropriation of unreserved General Fund balance to an amount less than 5% of the General Fund revenues. The 5% reserve that cannot be budgeted is used to provide working capital until tax revenue is received, to meet emergency expenditures, and to cover unanticipated deficits. Any unreserved General Fund balance greater than 18% of the next year's budgeted revenues must be appropriated within the following two years.

Once adopted, the budget may be amended by the City Council without hearing provided the budgeted expenditures do not exceed budgeted revenues and appropriated fund balance. A public hearing must be held if the budgeted expenditures will exceed budgeted revenues and any fund balance which is available for budgeting. With the consent of the Mayor, department heads may reallocate unexpended appropriated balances from one expenditure account to another within that department during the budget year. Budgets for the General Fund are prepared on the modified accrual basis of accounting. Encumbrances are not used.

2-B. Deficit fund net assets

The Capital Projects fund has a deficit balance of \$13,505 at June 30, 2006.

Duchesne City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3 - DETAILED NOTES

3-A. Deposits and investments

Cash and investments as of June 30, 2006 consist of the following:

	<u>Fair Value</u>
Cash on hand	\$ 500
Demand deposits - checking	171,408
Investments - PTIF	<u>285,865</u>
Total cash and investments	<u>\$457,773</u>

Cash and investments listed above are classified in the accompanying government-wide statement of net assets as follows:

Cash and cash equivalents	\$389,840
Restricted cash and cash equivalents	<u>67,933</u>
Total cash and cash equivalents	<u>\$457,773</u>

Cash equivalents and investments are carried at fair value in accordance with GASB Statement No. 31.

The Utah Money Management Act (UMMA) establishes specific requirements regarding deposits of public funds by public treasurers. UMMA requires that city funds be deposited with a qualified depository which includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements specified in UMMA Section 51, Chapter 7. UMMA provides the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and also defines capital requirements which an institution must maintain to be eligible to accept public funds. UMMA lists the criteria for investments and specifies the assets which are eligible to be invested in, and for some investments, the amount of time to maturity.

UMMA enables the State Treasurer to operate the Public Treasurer's Investment Pool (PTIF). PTIF is managed by the Utah State Treasurer's investment staff and comes under the regulatory authority of the Utah Money Management Council. This council is comprised of a select group of financial professionals from units of local and state government and financial institutions doing business in the state. PTIF operations and portfolio composition is monitored at least semi-annually by the Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations. Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments which are recorded on an amortized cost basis. Maturities of investments in the PTIF are less than one year and the balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares. The Town maintains monies not immediately needed for expenditure in PTIF and FDIC insured bank savings accounts.

Duchesne City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

3-A. Deposits and investments (continued)

Deposit and Investment Risk

The City maintains no investment policy containing any specific provisions intended to limit the City's exposure to interest rate risk, credit risk, and concentration of credit risk other than that imposed by UMMA. The City's compliance with the provisions of UMMA addresses each of these risks.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. All deposits and investments of the City are available immediately.

Credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations. Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits. Of the City's demand deposits, \$100,000 are covered by FDIC insurance, while \$71,408 are uninsured. Demand deposits are uncollateralized.

Custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. This risk is addressed through the City's policy of investing excess monies only in PTIF.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. PTIF falls under the constraints of UMMA in limiting concentrations of investments.

3-B. Receivables

Accounts not expected to be collected within one year are captioned as non-current receivables. Accounts receivable are shown on the financial statements as follows:

	General Fund	Capital Projects Fund	Utility Fund	Total
Property tax	\$ 95,176	-	-	95,176
Intergovernmental	62,220	46,326	-	108,546
Customers	832	-	66,587	67,418
Other	9,820	-	-	9,820
Total receivables	168,048	46,326	66,587	280,961
Allowance for uncollectibles	-	-	(12,239)	(12,239)
Net receivables	<u>\$168,048</u>	<u>46,326</u>	<u>54,347</u>	<u>268,721</u>

Duchesne City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

3-C. Capital Assets

Capital asset activity for the governmental activities was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land and water rights	\$ 39,040	-	-	39,040
Construction in progress	<u>451,037</u>	<u>319,197</u>	-	<u>770,234</u>
Total capital assets, not being depreciated	<u>490,077</u>	<u>319,197</u>	-	<u>809,274</u>
Capital assets, being depreciated:				
Buildings	402,208	42,943	-	445,151
Improvements other than buildings	626,770	-	-	626,770
Machinery and equipment	460,648	22,078	-	482,726
Infrastructure	<u>2,639,225</u>	-	-	<u>2,639,225</u>
Total capital assets, being depreciated	<u>4,128,851</u>	<u>65,021</u>	-	<u>4,193,872</u>
Less accumulated depreciation for:				
Buildings	207,492	10,633	-	218,126
Improvements other than buildings	111,479	14,745	-	126,224
Machinery and equipment	414,739	10,031	-	424,769
Infrastructure	<u>1,979,429</u>	<u>65,981</u>	-	<u>2,045,410</u>
Total accumulated depreciation	<u>2,713,139</u>	<u>101,390</u>	-	<u>2,814,529</u>
Total capital assets being depreciated, net	<u>1,415,712</u>	<u>(36,369)</u>	-	<u>1,379,343</u>
Governmental activities capital assets, net	<u>\$1,905,790</u>	<u>171,369</u>	-	<u>2,077,159</u>

Depreciation expense was charged to functions/programs of the primary government governmental activities as follows:

Governmental Activities:	
General government	\$ 654
Public safety	4,205
Highways and public improvements	71,747
Parks, recreation and public property	<u>24,784</u>
Total	<u>\$101,390</u>

Duchesne City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

3-C. Capital assets, continued

Capital asset activity for business-type activities was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land and water shares	\$ 17,705	-	-	17,705
Construction in progress	<u>-</u>	<u>65,671</u>	<u>-</u>	<u>65,671</u>
Total capital assets, not being depreciated	<u>17,705</u>	<u>65,671</u>	<u>-</u>	<u>83,376</u>
Capital assets, being depreciated:				
Buildings and structure	350,858	-	-	350,858
Water and sewer system	3,138,705	-	-	3,138,705
Machinery and equipment	<u>293,525</u>	<u>60,700</u>	<u>-</u>	<u>354,225</u>
Total capital assets being depreciated	<u>3,783,088</u>	<u>60,700</u>	<u>-</u>	<u>3,843,788</u>
Less accumulated depreciation for:				
Buildings and structure	159,081	8,320	-	167,401
Water and sewer system	1,061,680	72,285	-	1,133,965
Machinery and equipment	<u>108,285</u>	<u>20,693</u>	<u>-</u>	<u>128,979</u>
Total accumulated depreciation	<u>1,329,047</u>	<u>101,298</u>	<u>-</u>	<u>1,430,345</u>
Total capital assets being depreciated, net	<u>2,454,041</u>	<u>(40,598)</u>	<u>-</u>	<u>2,413,443</u>
Business-type activities capital assets, net	<u>\$2,471,746</u>	<u>25,073</u>	<u>-</u>	<u>2,496,819</u>

Depreciation expense was charged to functions/programs of the primary government business-type activities as follows:

Business-Type Activities:	
Water	\$72,215
Sewer	<u>29,083</u>
Total	<u>\$101,298</u>

Duchesne City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

3-D. Long-term debt

Long-term debt activity for the year was as follows:

	<u>Original Principal</u>	<u>% Rate</u>	<u>06/30/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/2006</u>	<u>Due Within One Year</u>
<u>Governmental activities:</u>							
Motor Grader 1980	\$ 8,005	4.50	-	-	-	-	-
Street Bond 1999	383,000	2.00	\$342,000	-	14,000	328,000	14,000
Parks Tractor 2001	24,273	4.50	-	-	-	-	-
PCIB Swim Pool 2004	200,000	-	<u>190,000</u>	<u>-</u>	<u>44,382</u>	<u>145,618</u>	<u>10,000</u>
Total governmental activity long-term liabilities			<u>\$532,000</u>	<u>-</u>	<u>58,382</u>	<u>473,618</u>	<u>24,000</u>

Bond debt service requirements to maturity for governmental activities are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 24,000	6,560	30,560
2008	25,000	6,280	31,280
2009	25,000	5,980	30,980
2010	25,000	5,680	30,680
2011	26,000	5,380	31,380
2012-2016	133,000	22,040	155,040
2017-2021	141,000	13,460	154,460
2022-2026	<u>74,618</u>	<u>3,980</u>	<u>112,980</u>
Total	<u>\$473,618</u>	<u>69,360</u>	<u>577,360</u>

Duchesne City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

3-D. Long-term debt (continued)

	Original Principal	% Rate	06/30/2005	Additions	Reductions	06/30/2006	Due Within One Year
<u>Business-type activities:</u>							
Water bonds							
Water Pollution 1988	\$200,000	2.00	\$ 45,407	-	11,323	34,084	11,550
Water Revenue 2002	560,000	2.06	514,000	-	24,000	490,000	24,000
Water Shed 2006	34,500	4.55	-	34,500	-	34,500	6,300
Sewer bonds:							
Sewer Revenue 1968	60,000	4.13	<u>7,366</u>	-	<u>3,522</u>	<u>3,844</u>	<u>2,083</u>
Total business-type activity long-term liabilities			<u>\$566,773</u>	<u>34,500</u>	<u>38,845</u>	<u>562,428</u>	<u>43,933</u>

All bonds are revenue bonds secured by the revenues of the respective water or sewer systems.

Revenue bond debt service requirements to maturity for business-type activities are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 43,933	12,504	55,438
2008	45,129	11,406	55,536
2009	42,640	10,283	51,924
2010	33,200	9,240	41,441
2011	33,527	8,376	40,905
2012-2016	141,000	31,786	167,794
2017-2021	156,000	16,645	167,653
2022-2026	<u>67,000</u>	<u>2,081</u>	<u>18,915</u>
Total	<u>\$562,428</u>	<u>102,320</u>	<u>599,607</u>

Duchesne City
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 4 - OTHER INFORMATION

4-A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City participates in the Utah Local Government Trust. All insurance coverage is brokered and written through various insurance companies. Utah Local Government Trust acts as the broker.

4-A. Employee pension and other benefit plans

Plan Description: The City contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System), and the Public Safety Noncontributory Retirement System (Public Safety Noncontributory System) for employers with (without) social security coverage, all of which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living adjustments, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (office) for the administration of the Utah Retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue: a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling) 1-800-365-8772.

Funding Policy: Plan member are required to contribute a percent of their covered salary (all or part may be paid by the employer) to the respective systems to which they belong; Duchesne City is required to contribute 11.09% of covered salaries to the Local Governmental Noncontributory Retirement System. The contribution rate is the actuarially determined rate and is approved by the Board as authorized by Chapter 49.

The City's contributions to the Noncontributory System for the years ending June 30, 2006, 2005 and 2004 were \$22,578, \$20,792 and \$17,010, respectively. The contributions were equal to the required contributions for each year.

REQUIRED SUPPLEMENTAL INFORMATION
(Unaudited)

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Duchesne City
Notes to Required Supplementary Information
June 30, 2006

Budgetary Comparison Schedules

The Budgetary Comparison Schedules presented in this section of the report are for the City's General Fund.

Budgeting and Budgetary Control

Budgets for the General Fund are legally required and are prepared and adopted on the modified accrual basis of accounting.

Original budgets represent the revenue estimates and spending authority authorized by the City Council prior to the beginning of the year. Final budgets represent the original budget amounts plus any amendments made to the budget during the year by the Council through formal resolution. Final budgets do not include unexpended balances from the prior year because such balances automatically lapse to unreserved fund balance at the end of each year.

Current Year Excess of Expenditures over Appropriations

For the year ended June 30, 2006, spending for the public safety department of the general fund exceed appropriations by \$24,802. Transfers exceeded appropriations by \$34,382. Spending for all other departments within the general fund was within the approved budgets.

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Duchesne City
**SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES -BUDGET AND ACTUAL-GENERAL FUND**
(Unaudited)
 For the Year Ended June 30, 2006

	Budgeted <u>Original</u>	Budgeted <u>Final</u>	<u>Actual</u>	Variance with Final Budget <u>Under (Over)</u>
Revenues:				
Taxes	\$408,000	408,000	425,460	(17,460)
Licenses and permits	37,000	37,000	40,519	(3,519)
Intergovernmental revenues	83,000	103,500	122,940	(19,440)
Charges for services	84,270	63,770	77,278	(13,508)
Interest	7,000	7,000	11,028	(4,028)
Miscellaneous revenue	<u>13,500</u>	<u>13,500</u>	<u>4,250</u>	<u>9,250</u>
Total revenues	<u>632,770</u>	<u>632,770</u>	<u>681,476</u>	<u>(48,706)</u>
Expenditures:				
General government	105,760	105,760	99,100	6,660
Public safety	165,960	165,960	190,762	(24,802)
Highways and public improvements	169,300	169,300	128,908	40,392
Parks, recreation and public property	151,750	151,750	131,796	19,954
Debt service:				
Principal	32,450	32,450	58,382	(25,932)
Interest	<u>7,550</u>	<u>7,550</u>	<u>6,840</u>	<u>710</u>
Total expenditures	<u>\$632,770</u>	<u>632,770</u>	<u>615,788</u>	<u>16,982</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>65,688</u>	<u>(65,688)</u>
Other Financing Sources and (Uses):				
Transfers in	<u>-</u>	<u>-</u>	<u>34,382</u>	<u>(34,283)</u>
Net Change in Fund Balances	<u>-</u>	<u>-</u>	<u>100,070</u>	<u>(100,070)</u>
Fund Balances - beginning of year			<u>87,348</u>	
Fund Balances - end of year			<u>\$187,417</u>	

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SUPPLEMENTARY INFORMATION

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Duchesne City
Supplementary Information
June 30, 2006

Schedule of Impact Fees

Duchesne City collects water and sewer impact fees. During the year ended June 30, 2006 water impact fees were collected in the amount of \$5,470 and were applied to water construction bond payments; sewer impact fees were collected in the amount of \$12,600 and were applied to sewer construction bond payments. The present plan is to apply any impact fee collections to the construction bond payments related to the impact fee. There were no impact fees outstanding at year end.



AYCOCK, MILES & ASSOCIATES, CPAs, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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OF CERTIFIED PUBLIC ACCOUNTANTS

**Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With Government Auditing Standards**

City Council
Duchesne, Utah

We have audited the financial statements of Duchesne City as of and for the year ended June 30, 2006, and have issued our report thereon dated December 12, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed three instances of noncompliance that is required to be reported under Government Auditing Standards. These instances are described in a compliance findings letter following this report.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Aycock, Miles & Associates, CPAs

December 12, 2006



AYCOCK, MILES & ASSOCIATES, CPAs, P.C.

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and

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Utah State Compliance Report

City Council
Duchesne, Utah

We have audited the general purpose financial statements of Duchesne City, Utah, for the year ended June 30, 2006, and have issued our report thereon dated December 12, 2006. Our audit included test work on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Purchasing Requirements
Property Tax

Cash Management
Budgetary Compliance
Other Compliance Requirements

As part of our audit, we have audited Duchesne City's compliance with the requirements governing types of services allowed or disallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major State assistance programs as required by the *State of Utah's Legal Compliance Audit Guide* for the year ended June 30, 2006. The City did not receive any major State assistance programs from the State of Utah.

The management of City of Duchesne is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed three instances of noncompliance. Please refer to the compliance findings letter following this report.

In our opinion, the Duchesne City, Utah, complied, in all material respects, with the general and major compliance requirements identified above for the year ended June 30, 2006.

Aycock, Miles & Associates, CPAs

December 12, 2006

Compliance Findings and Recommendations

2006-1 Compliance Finding

The general fund's public safety and debt service departments and utility fund water department exceeded their legal annual budget. Operating transfers also exceeded its budget amount.

Criteria

The City is required to spend within its annual budget that has been approved by the City Council and discussed in a required public hearing.

Effect

Expenditures exceeding what the City Council and the public expected.

Recommendation

We recommend that the City Council carefully review its budget upon being created and then throughout the year. As appropriate, amend the budget when necessary.

Town Response

The City agrees with auditor recommendations. The City will periodically review its budget as considered necessary.

2006-2 Compliance Finding

The Capital Projects Fund is in a deficit balance.

Criteria

Utah State law requires governmental funds to carry a positive fund balance.

Effect

A deficit fund balance.

Recommendation

We recommend that the General Fund budget and complete an operating transfer to the Capital Projects Fund to alleviate that fund of its deficit balance.

Town Response

The City will transfer funds as needed to the Capital Projects Fund.

2006-3 Compliance Finding

The General Fund unreserved fund balance exceeded the 18% of revenue limitation as set forth by Utah State Law.

Criteria

Utah State law requires general fund balances to be held below certain thresholds.

Effect

A fund balance that exceeds Utah State limits.

Recommendation

We recommend that the General Fund budget and complete an operating transfer to the Capital Projects Fund in order to fund its capital outlay through that fund instead of the General Fund.

Town Response

The City will transfer funds as needed to the Capital Projects Fund.

165 South Center
Duchesne, Utah 84021

DUCHESNE CITY

duchesne@ubtanet.com

435-738-2464
fax: 435-738-5394

July 18, 2007

Richard M. Moon
Office of the State Auditor
Utah State Capitol Complex
East Office Building, Suite E310
PO Box 142310
Salt Lake City, Utah 84114-2310

Mr. Moon,

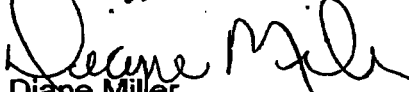
In response to your question as to our plan to deal with the budget overspending in the public safety and debt service departments during the year 2005-2006 we submit the following:

Public safety: During the year an animal control project was begun in connection with Duchesne County. This was done under the authority of the city council. Expenditures were made for an animal control person, truck and other related expenses. It had been determined that there was enough revenue to cover the activity, however, the estimated amounts for the activity was not ever added to the budget. It has been properly budgeted for the year 2006-2007.

Debt service: The budget for debt service was originally based on the actual expenditure of the previous year. However, the first payment on the 2004 PCIB Swim Pool bond became payable during the year. Payment was made, of course, in accordance with the bond ordinance. Here again, though, the budget did not get changed to reflect the larger expenditure amount. This also has been corrected in the budget for the year 2006-2007.

These are one-time items related only to the year 2005-2006. There is no further "plan" other than to properly budget for expenditures as is required. Mayor Clint Park is the budget authority for the City.

Sincerely,


Diane Miller
City Recorder